

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105

RH-05-046947

INITIAL STATEMENT OF REASONS

In a public hearing on September 16, 2005, at 9:30 A.M., the Insurance Commissioner will consider (1) the approval of pure premium rates developed by the designated rating organization; (2) amendments to the California Workers' Compensation Uniform Statistical Reporting Plan—1995, Title 10 CCR §2318.6; (3) amendments to the Miscellaneous Regulations for the Recording and Reporting of Data, Title 10, CCR §2354; and (4) amendments to the California Workers' Compensation Experience Rating—1995, Title 10 CCR §2353.1. The hearing will be held in response to a filing by the Workers' Compensation Insurance Rating Bureau of California ("WCIRB") submitted on July 28, 2005.

Pursuant to Insurance Code Sections 11734 and 11751.5, the Insurance Commissioner has designated the WCIRB as his rating organization and statistical agent. As the designated rating organization and statistical agent, the WCIRB has developed and submitted for Insurance Commissioner approval pure premium rates and revisions to the California Workers' Compensation Uniform Statistical Reporting Plan—1995; the Miscellaneous Regulations for the Recording and Reporting of Data; and the California Workers' Compensation Experience Rating Plan—1995. The pure premium rates will be advisory only; however, adherence to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan—1995, the Miscellaneous Regulations for the Recording and Reporting of Data, and the California Workers' Compensation Experience Rating Plan—1995 is mandatory. With regard to the standard classification system developed by the WCIRB and approved by the Insurance Commissioner, Insurance Code Section 11734 provides that an insurer may develop its own classification system if it is filed with the Insurance Commissioner 30 days prior to its use and is not disapproved by the Insurance Commissioner for failure to demonstrate that the data produced by the insurer's classification system can be reported consistently with the California Workers' Compensation Uniform Statistical Plan—1995 or the classification system developed by the WCIRB and approved by the Insurance Commissioner.

The Insurance Commissioner also has instructed the WCIRB to file and submit advisory rules and rating plans for review. The WCIRB is submitting amendments to the California Insolvent Insurer Rating Adjustment Plan.

The pure premium rates recommended by the WCIRB to be effective January 1, 2006, as well as proposed revisions to the regulations to be effective January 1, 2006, are set forth in its filing and are summarized below:

APPROVE PURE PREMIUM RATES

Pursuant to California Insurance Code Section 11750.3, the WCIRB has proposed advisory pure premium rates for approval by the Insurance Commissioner to be effective January 1, 2006 with respect to new and renewal policies as of the first anniversary rating date of the risk on or after January 1, 2006. The proposed advisory pure premium rates are, on average, 5.2% less than the July 1, 2005 advisory pure premium rates approved by the Insurance Commissioner.

AMEND THE CALIFORNIA WORKERS' COMPENSATION UNIFORM STATISTICAL REPORTING PLAN—1995

The WCIRB recommends amending the California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP). These changes are proposed to become effective January 1, 2006 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2006.

The WCIRB recommends that:

1. Part 1, "General Provisions," Section I, "Introduction," Rule 3, "Effective Date," be amended to clarify current publication protocols and for consistency with proposed amendments to the California Workers' Compensation Experience Rating Plan—1995 and the Miscellaneous Regulations for the Recording and Reporting of Data.
2. Part 3, Section II, "Classification Terminology," be amended to clarify the definition of governing classification.
3. Part 3, Section III, "General Classification Procedures," Rule 4, "Standard Exceptions," Subrule a, "Clerical Office Employees," be amended to clarify how clerical office employees are to be classified.
4. Part 3, Section IV, "Special Industry Classification Procedures," Rule 2, "Construction or Erection Work," be amended to clarify the treatment of executive level supervisors.
5. Part 3, Section IV, "Special Industry Classification Procedures," Rule 7, "Temporary Labor Service Contractors," "Labor Leasing Arrangements and Professional Employer Organizations," be amended to conform to recently adopted changes in the California Workers' Compensation Experience Rating Plan—1995 and for editorial purposes.
6. Part 3, Section V, "Payroll – Remuneration," Rule 1, "Payroll – Remuneration," Subrule j, "Executive Officers," Subrule k, "Partners," Subrule l, "Individual Employers," and Subrule m, "Members of a Limited Liability Company," be amended to adjust the minimum and maximum payroll limitations for executive officers, partners, individual employers, and members of a limited liability company to reflect the increase in wage levels that has occurred since the minimum and maximum payroll limitations previously were amended effective January 1, 2005 and for clarity.

7. Part 3, Section VI, “Administration of Classification System,” Rule 2, “Notification of Standard Classification Assignment,” be amended to clarify that the WCIRB will furnish the employer with a hard copy of the inspection report when it is published.
8. Part 3, Section VII, “Standard Classifications,” Rule 1, “Classification Section,” Subrule b, “Classification Phraseology/Classification Wording,” be amended for clarity.
9. Classification 9181, “Athletic Teams or Parks – all players on salary list of employer, whether regularly played or not,” be amended to increase the annual payroll limitation for players from \$84,500 to \$87,100 per person to reflect wage inflation and for clarity.
10. Classification 8820, “Attorneys – all employees,” be amended to clarify that Classification 8820 is not applicable to firms that provide attorney support services. A new classification for firms that provide attorney support services is proposed elsewhere in this filing.
11. Classification 8821, “Attorney Support Services – including Clerical Office Employees and Outside Salespersons,” be established. Firms that specialize in providing attorney support services constitute a distinct and identifiable industry of sufficient size to generate a statistically credible pure premium rate.
12. Classification 8387, “Automobile or Automobile Truck Service Stations – all employees,” be amended for editorial purposes.
13. Classification 8392, “Automobile or Automobile Truck Storage Garages or Parking Stations or Lots – no repair,” be amended for editorial purposes.
14. Classification 4283, “Building or Roofing Paper or Felt Preparation,” be amended for editorial purposes.
15. Classifications 5645(1)/5697(1), “Carpentry – construction or remodeling of detached private residences for occupancy by one or two families,” be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
16. Classifications 5645(2)/5697(2), “Carpentry – construction or remodeling of dwellings not exceeding three stories in height,” be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
17. Classifications 5403/5432, “Carpentry – including the installation of interior trim, builders finish, doors and cabinet work in connection therewith,” be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.

18. Classifications 5201(1)/5205(1), “Concrete or Cement Work – pouring or finishing of concrete sidewalks, driveways, patios, curbs or gutters,” be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
19. Classifications 5201(2)/5205(2), “Concrete or Cement Work – pouring or finishing of concrete floor slabs, poured in place and on the ground for other than concrete buildings or structural steel buildings of multi-story construction,” be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
20. Classification 5606, “Contractors – construction or erection,” be amended for clarity and to specify that a single employee’s payroll may not be divided between Classification 5606 and any other classification.
21. Classification 3724(2), “Electrical Machinery or Auxiliary Apparatus – installation or repair,” be amended to include division of payroll language in the classification phraseology.
22. Classifications 5190/5140, “Electrical Wiring – within buildings,” be amended to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation.
23. Classification 3566, “Audio/Visual Electronic Products Mfg.,” be eliminated as a unique classification and Classification 3681(4), “Audio/Visual Electronic Products Mfg.,” be established as a cross-reference to Classification 3681(1), “Instrument Mfg. – electronic,” as proposed elsewhere in this filing; the phraseology be amended to eliminate the reference to stereo speakers to be consistent with changes proposed elsewhere in this filing.
24. Classification 3567, “Computer or Computer Peripheral Equipment Mfg.,” be eliminated as a unique classification and Classification 3681(2), “Computer or Computer Peripheral Equipment Mfg.,” be established as a cross-reference to Classification 3681(1), “Instrument Mfg. – electronic,” as proposed elsewhere in this filing.
25. Classification 3681, “Instrument Mfg. – professional or scientific,” be amended to limit the application of this classification to manufacturers of electronic instruments and be established as a cross-reference classification in view of changes proposed elsewhere in this filing.
26. Classification 3578, “Telecommunications Equipment Mfg.,” be eliminated as a unique classification and Classification 3681(3), “Telecommunications Equipment Mfg.,” be established as a cross-reference to Classification 3681(1) “Instrument Mfg. – electronic,” as proposed elsewhere in this filing.

27. Classifications 6315(2)/6316(2), "Gas Mains or Connections Construction – including tunneling at street crossings," be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
28. Classifications 5467/5470, "Glaziers – away from shop," be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
29. Classification 3682, "Instrument Mfg. – non-electronic – scientific or medical – N.O.C.," be established. Firms engaged in the manufacture of non-electronic scientific or medical instruments constitute a distinct and identifiable industry of sufficient size to generate a statistically credible pure premium rate. These operations were previously assigned to Classification 3681, "Instrument Mfg. – professional or scientific – N.O.C."
30. Classification 8286(2), "Livestock Auctioneers – including inside salespersons or Outside Salespersons, solicitors or appraisers," be amended for editorial purposes.
31. Classification 7232, "Mail Delivery Service Companies – firms operating under contract to the United States Postal Service," be amended for editorial purposes.
32. Classifications 5027/5028, "Masonry," be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
33. Classification 3724(1), "Millwright Work – N.O.C.," be amended to include division of payroll language in the classification phraseology.
34. Classification 9610, "Motion Pictures – production," be amended to increase the annual payroll limitation for production directors, players, entertainers and musicians from \$84,500 to \$87,100 per person to reflect wage inflation.
35. Classification 8810(1), "Clerical Office Employees," be removed from the "Municipal, State or Other Public Agencies" industry group for clarity and consistency with other industry groups.
36. Classification 9033, "Housing Authorities – all employees," be amended for editorial purposes.
37. Classification 9410, "Municipal, State or Other Public Agency Employees – not engaged in manual labor, clerical office duties, or immediate charge of construction or erection work," be amended for clarity.
38. Classification 9420, "All Other Municipal, State or Public Agency Employees – N.O.C.," be amended for clarity and consistency.

39. Classification 8875(1), "Public Colleges or Schools – all employees," be amended for clarity.
40. Classification 8875(2), "Superintendent of Public Schools Office – all employees," be amended to specify that this classification includes outside salespersons.
41. Classification 3719, "Oil or Gas Refining, Distilling or Compressing Units – erection or repair," be amended for editorial purposes.
42. Classification 2571, "Pillow, Quilt, Comforter or Cushion Mfg. – no mattress or box spring manufacturing," be amended for clarity.
43. Classifications 5484/5485, "Plastering or Stucco Work," be amended to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
44. Classification 4478, "Plastic Goods Mfg. – N.O.C.," be amended to clarify that the original manufacture of molds or dies contemplated in the footnote may also include the modification of existing molds or dies.
45. Classification 4297(2), "Graphic Design – all operations – including Clerical Office Employees," be established within the Printing, Publishing and Duplicating industry group as a cross-reference to Classification 4297(1), "Electronic Prepress – all operations," as proposed elsewhere in this filing.
46. Classification 4297, "Phototypesetting – all operations – including Clerical Office Employees," be renamed as "Electronic Prepress – all operations – including Clerical Office Employees," and be established as a cross-reference to Classification 4297(2), "Graphic Design – all operations," as proposed elsewhere in this filing and for clarity.
47. Classification 7610, "Radio, Television or Commercial Broadcasting Stations – all employees," be amended to increase the annual payroll limitation for players, entertainers and musicians from \$84,500 to \$87,100 per person to reflect wage inflation.
48. Classifications 5552/5553, "Roofing – all kinds," be amended to increase the hourly wage threshold from \$20.00 per hour to \$21.00 per hour to reflect wage inflation.
49. Classification 8742(1), "Salespersons – Outside," be amended for editorial purposes.
50. Classifications 6307/6308, "Sewer Construction – all operations," be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.

51. Classifications 5538/5542, "Sheet Metal Work – erection, installation or repair," be amended to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
52. Classification 4720, "Soap or Synthetic Detergent Mfg.," be amended for editorial purposes.
53. Classification 3683, "Speaker Mfg.," be established. Firms engaged in the manufacture of speakers constitute a distinct and identifiable industry of sufficient size to generate a statistically credible pure premium rate. These operations were previously assigned to Classification 3566, "Audio/Visual Electronic Products Mfg."
54. Classifications 5630/5631, "Steel Framing – light gauge – residential," be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
55. Classifications 5632/5633, "Steel Framing – light gauge – commercial or industrial," be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
56. Classification 8046, "Stores – automobile accessories," be amended for editorial purposes.
57. Classification 8062, "Stores – computer," be amended to reflect changes proposed elsewhere in this filing.
58. Classification 7365, "Taxicab Operations – all employees," be amended to increase the minimum annual payroll per taxicab from \$24,100 to \$24,700 to reflect wage inflation.
59. Classification 9156, "Theaters – dance, opera and theater companies," be amended to increase the annual payroll limitation for performers and directors of performers from \$84,500 to \$87,100 per person to reflect wage inflation.
60. Classification 9151, "Theaters – music ensembles," be amended to increase the annual payroll limitation for performers and directors of performers from \$84,500 to \$87,100 per person to reflect wage inflation.
61. Classification 2501(3), "Umbrella Mfg.," be eliminated. The manufacture of umbrellas is similar to the operations contemplated under Classification 2576, "Awning, Tarp or Canvas Goods Mfg. – N.O.C. – shop only," and should be so assigned.
62. Classifications 5446/5447, "Wallboard Application – within buildings," be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.

63. Classification 8215(2), “Warehouses – grain or bean,” be amended for editorial purposes.
64. Classifications 6315(1)/6316(1), “Water Mains or Connections Construction – including tunneling at street crossings,” be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
65. Classification 5482(2), “Waterproofing – other than roofing or subaqueous work when performed as a separate operation not a part of or incidental to any other operation,” be amended for editorial purposes.
66. Section VIII, “Abbreviated Classifications – Numeric Listing,” be amended to conform to proposed changes to the Standard Classification System.

Appendices

The WCIRB recommends that:

1. Appendix II, “Construction and Erection Classifications,” be amended to conform to proposed changes to the Standard Classification System.

AMEND THE MISCELLANEOUS REGULATIONS FOR THE RECORDING AND REPORTING OF DATA

The WCIRB recommends that the following amendments to the Miscellaneous Regulations for the Recording and Reporting of Data (Miscellaneous Regulations) be approved effective January 1, 2006 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2006.

The WCIRB recommends that:

1. Part 1, “General Provisions,” Section I, “Introduction,” Rule 2, “Effective Date,” be amended to clarify current publication protocols and for consistency with proposed amendments to the California Workers’ Compensation Experience Rating—1995 and the California Workers’ Compensation Uniform Statistical Reporting Plan—1995.

AMEND THE CALIFORNIA WORKERS' COMPENSATION EXPERIENCE RATING PLAN—1995

The WCIRB recommends that the following amendments to the California Workers' Compensation Experience Rating Plan—1995 (Experience Rating Plan) be approved effective January 1, 2006 with respect to new and renewal policies as of the first anniversary rating date of the risk on or after January 1, 2006.

The WCIRB recommends that:

1. Section I, "General Provisions," Rule 2, "Effective Date," be amended to clarify current publication protocols and for consistency with proposed amendments to the California Workers' Compensation Uniform Statistical Reporting—1995 and the Miscellaneous Regulations for the Recording and Reporting of Data.
2. Section III, "Eligibility and Experience Period," Rule 1, "Eligibility Requirements for California Workers' Compensation Insurance," be amended to adjust the eligibility requirement from \$23,288 to \$22,700 to reflect wage inflation and the changes in pure premium rates proposed in this filing.
3. Section VII, "Rating Procedure," Rule 1, "Primary Actual Losses," be amended to replace the formula for computing the primary actual loss value with a new method for determining the primary actual loss value.
4. The values in Table I, "Primary Values of Actual Losses," be eliminated and replaced with a reference to Section VII, Rule 1 to conform to changes proposed elsewhere in this filing and for clarity.
5. The expected loss rates and D-ratios shown in Table II, "Expected Loss Rates and Full Coverage D-Ratios," be amended to reflect the most current data available.
6. The average death value shown in Table III, "B and W Values," "Average Death Value," be amended from \$151,100 to \$159,400 to reflect the most current data available and the "B" and "W" values be amended to reflect the WCIRB's latest analysis of experience rating credibility as summarized in Part B, Section C, Appendix B.

REVIEW AMENDMENTS TO THE CALIFORNIA INSOLVENT INSURER RATING ADJUSTMENT PLAN

The following amendments to the California Insolvent Insurer Rating Adjustment Plan were adopted by the WCIRB to be effective January 1, 2006. The amendments to this WCIRB advisory plan are being submitted to the California Department of Insurance for review.

1. Table 1, “Insolvent Insurer Rating Adjustment Plan – Expected Indemnity Claim Frequency Rates (Per Million Dollars of Payroll),” has been amended to reflect updated claim and payroll experience and changes to the Standard Classification System proposed in Part B, Section A, of this filing.
2. Table 2, “Insolvent Insurer Rating Adjustment Plan – Rating Values,” has been amended to reflect updated claim and payroll experience.